Asset Class Glossary: Real Estate
~~February 10, 2006~~March 13, 2006

Credit Accommodation

The term generally refers to a guaranty executed by CalPERS whereby CalPERS agrees to pay the debt obligation of an entity, in the event the entity fails to pay the debt obligation. The entity will usually be a limited partnership or limited liability company, and will be majority-owned by CalPERS. The debt obligation that CalPERS guarantees will be evidenced by an extension of credit (e.g., loan, line of credit, or other form of credit facility) by a financial institution to the entity. The benefit provided to CalPERS is that the guaranty will tend to lower the borrowing cost for the entity and should, in turn, enhance the overall return to the real estate investment. Guarantees become a contingent liability on the CalPERS' overall balance sheet and should be used only when they provide economic benefit. Credit accommodation differs from credit enhancement in that a credit accommodation is not rated and does not use CalPERS' Credit Enhancement Program (CEP) rating (either implied or explicitly). In addition, Credit Accommodation is made for an entity in which CalPERS has an existing, or proposed, ownership interest. Credit enhancement is the use of CalPERS' balance sheet, through the program rating, in which CalPERS has no initial ownership interest and where CalPERS receives explicit consideration for the enhancement.

Asset Class Glossary: Fixed Income
February 10, 2006

Credit Enhancement

The term is used in context of CalPERS Credit Enhancement Program (CEP). It refers to instruments whereby CalPERS' CEP credit rating is used to strengthen the credit rating of a lower-rated entity in bond or note financing transaction through either liquidity (e.g. standby bond or note purchase agreements, lines of credit) or credit guarantees or both liquidity and credit guarantees (e.g. letters of credit). Through the use of these instruments CalPERS' CEP credit rating is substituted for that of a lower rated entity in exchange for a fee. Such enhancements become a contingent liability upon CalPERS' overall balance sheet.